

THE CHALLENGES FACING FEDERAL RENTAL ASSISTANCE PROGRAMS

The Congress of the United States
Congressional Budget Office

NOTES

Numbers in the text and tables of this report may not add to totals because of rounding.

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Preface

The federal government helps low-income renters meet their housing needs through a variety of programs and policies. But tight budgets and questions about the effectiveness of the current system in dealing with those needs have brought calls for a better understanding of the nation's housing situation. In response to a request from the Senate Committee on the Budget, this study explores the housing and economic conditions of low-income renters and examines how those conditions differ for recipients of federal housing aid and nonrecipients. In accordance with the Congressional Budget Office's (CBO's) mandate to provide objective, impartial analysis, the study contains no recommendations.

Carla Pedone of CBO's Health and Human Resources Division prepared the study under the direction of Nancy Gordon and Bruce Vavrichek. Computer support was provided by Eric Guille. Several people outside of CBO, including Stuart M. Butler, Jill Khadduri, Edgar O. Olsen, and John C. Weicher, offered useful comments on earlier drafts. Within CBO, James Baumgardner, Debbie Clay-Mendez, Julia Jacobsen, and Brent Shipp provided valuable assistance. CBO gratefully acknowledges the cooperation and assistance of the Bureau of the Census in making available a confidential version of the 1989 American Housing Survey without compromising the privacy of individual households.

Leah Mazade edited the text of the study, and Christian Spoor provided editorial and production assistance. Sharon Corbin-Jallow prepared drafts of the manuscript. Kathryn Quattrone prepared the study for publication.

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Summary

Last year, the federal government spent over \$22 billion to provide housing assistance for about 4.7 million renters with low incomes. In contrast to federal entitlement programs, however, rental aid has never been provided to all of the households that qualify for it. Indeed, last year only a fraction of eligible households received rental aid. And many of the households that were eligible for aid but did not receive it experienced significant housing problems: they paid large shares of their incomes for housing, or they lived in physically inadequate dwellings or unsatisfactory neighborhoods. Even some of the households that received assistance had those problems.

In the past two decades, the Congress has nearly doubled the number of households that receive rental assistance. But more recently, the stringent limitations on all discretionary spending and the increasing competition for funds within the housing area itself have noticeably slowed the expansion of aid. In particular, more and more of the available resources are going toward preserving the number of outstanding commitments for assistance and restoring the quality of subsidized housing units that were built decades ago.

These developments, coupled with broader interest in comprehensive welfare reform, argue for reassessing the effectiveness of current rental assistance programs in addressing the housing needs of renters with low incomes. Several issues are examined in this study. For example, how successful are current housing programs in alleviating housing problems? Are some more effective than others? Do the current criteria that establish priority for aid among eligible households identify those that need assistance the most? And how could the government do more with the same or a smaller amount of resources?

The Declining Affordability of Rental Housing

The past 15 years or so have witnessed a significant increase in the share of income that households spend for rental housing. For many households, that phenomenon may reflect their choosing to live in bigger or better-quality housing and is no cause for concern by policymakers. But for some households with low incomes, the larger share of income that they pay for rent may indicate a lack of housing options: they may prefer to live in cheaper units but cannot find them.

Between 1975 and 1991, rents paid by households increased faster than incomes within broad segments of the rental housing market and especially among renters with low incomes. Overall, the share of income that the typical renter would have had to spend to rent the typical housing unit increased from 22 percent in 1975 to 27 percent in 1991. A relatively poor renter, one with income at the 25th percentile of the income distribution (the income level just exceeding that of 25 percent of all renters), faced a steeper hike: renting a unit with rent at the 25th percentile of the rent distribution would have consumed 39 percent of that renter's income in 1991, compared with only 30 percent in 1975.

For this study, the Congressional Budget Office (CBO) defined housing costs as affordable to households with lower incomes if costs did not exceed 30 percent of income (the standard used in most federal housing programs today). Under that definition, a sizable gap has developed between the number of relatively poor households and the number of housing units they can afford. In 1975, about 6 million renter households in the United States had incomes

that fell in the lowest quarter of the income distribution of renters. A nearly equal number of housing units rented for 30 percent or less of the income of the household at the 25th percentile of the income distribution of renters. By 1991, the two measures were no longer balanced (see Summary Figure 1). The formation of new households and changes in the rate of home ownership had increased the number of households in the lowest quarter of the income distribution of renters to about 8 million. But the number of rental units affordable to that group fell to about 4.4 million units, resulting in a shortfall of over 3 million units.

Several factors help to explain the decline in housing affordability for renters with low incomes. On the income side, the well-documented decrease in

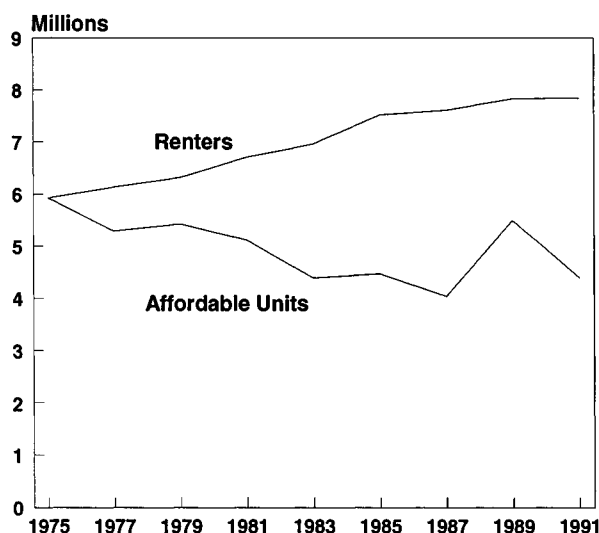
the real (that is, inflation-adjusted) incomes of households in the bottom part of the income distribution limited their purchasing power. Between 1975 and 1991, renters' real household incomes fell by roughly 5 percent at the 25th percentile of their income distribution. In comparison, the median level of income for renter households did not change much, and income at the 75th percentile of the income distribution of renters increased by about 7 percent. Demographic changes help to explain the decrease in income among relatively poor renters—for example, the proportion of households headed by single mothers increased.

In contrast to the relatively modest change in the real incomes of renters during the period, inflation-adjusted rents increased by over 20 percent at the points in the rent distribution corresponding to those noted above for the income distribution. A substantial share of that increase (estimates range from 35 percent to almost 90 percent for a unit with median rent) was due to improvements in the quality of rental housing; the remainder was the result of pure price increases. Thus, the element of choice probably played an important role in explaining why many relatively poor households were spending more for housing than they used to.

Several forces explain the increases in rents in different parts of the rent distribution during various periods. Over the 1970s, rents at the low end of the distribution were driven up faster than other rents because many low-rent housing units were abandoned or demolished. High rates of inflation in utility costs helped to push up rents throughout the distribution.

During much of the 1980s, rents overall increased more rapidly than in the 1970s but particularly at the high end of the rental scale. That trend was the result of both demand and supply factors. On the demand side, a sharp increase in the number of renter households fueled by a decline in the rate of home ownership among young households boosted the demand for higher-quality rental units and put upward pressure on rents. On the supply side, developers of multifamily apartment buildings responded to the increase in demand but also to certain provisions of the Economic Recovery Tax Act of 1981. Those provisions increased the profits to be made

Summary Figure 1.
Shortfall of Units Affordable to Renters
in the Bottom Quarter of Their Income
Distribution, 1975-1991



SOURCE: Congressional Budget Office based on data from the Census Bureau's Current Population Survey and American (formerly, Annual) Housing Survey. Data are for odd years only.

NOTES: Units are defined as affordable if they rent for 30 percent or less of the income of renters at the 25th percentile of their income distribution.

The data exclude renters who paid no cash rent and renters living in single-family homes on 10 acres or more.

from constructing rental housing. The large amount of new construction did not bring rents down at first; rather, it increased vacancy rates in rental housing. At the same time, the addition of so many new units (which were probably more expensive than the average existing ones) together with the loss of large numbers of rental units built before 1940 (which probably had below-average rents) worked to push up the rent distribution.

After 1987, real rents began to decline. That movement can be partially explained by the decrease in the rate of household formation and persistently high vacancy rates.

How Federal Housing Aid Affects Low-Income Renters

Federal housing assistance appears to be fairly successful in achieving its basic goals of reducing housing costs and improving housing conditions for assisted households. Overall, the incidence of most housing problems is considerably lower for households that receive aid than it is for eligible households that do not receive it. But for some recipients, the aid does not eliminate all of their housing problems. And there are questions about whether assistance is targeted toward the neediest renters.

What Subsidies Do Recipients Get?

The federal government provides two basic types of rental assistance. For more than 70 percent of recipients, the aid is "project based"; that is, recipients live in a publicly or privately owned housing unit that has been designated for use by assisted households. The subsidies for that type of aid are tied to the units, not to the people who live in them. The remaining recipients receive "household-based" aid. That assistance comes in the form of either certificates or vouchers that provide recipients with subsidies to rent lower-cost housing units of their own choosing in the private rental market.

Both types of assistance are generally designed to reduce what recipients spend for housing to 30 percent of their income. However, some recipients end up paying more than that share. Households that receive vouchers, for example, pay more than 30 percent of their income if they rent units that cost more than a locally determined standard amount called the fair market rent. Nonetheless, recipients of housing aid are better off than their counterparts who do not receive it because they have more resources to meet their needs for housing and other items.

Who Is Eligible for Aid and Who Receives It?

Eligibility for rental housing assistance depends on a household's level of income and varies by household size and geographic location. In 1989, the most recent year for which the detailed data used in this study were available, about 4.1 million households received assistance from the federal government in meeting their housing needs. Under the program rules in effect in 1994, almost 14.5 million additional households would have been eligible for aid; that is, their incomes were sufficiently low to qualify them. Not all of the households that were eligible, however, applied for aid, whereas many of those that did apply were placed on waiting lists because sufficient aid was not available.

Eligible households that are not receiving aid can be classified into three groups that roughly correspond to the preference they receive for housing aid under current program rules. That classification is based on the level of a household's income compared with the median income in its locality, the household's size, and the condition of its housing. The first two groups from which federal aid recipients are chosen consist of "very low income households." Those households have incomes that do not exceed a certain threshold--which, for four-person households, is 50 percent of the area's median income. In 1989, 8.5 million households were in that category (see Summary Table 1).

Because not enough aid is available to serve all households in the very low income category, certain of those households receive priority for aid. Those

that pay more than half of their income for rent or live in severely substandard units are classified as very low income households "with priority." The households in that group are placed at the top of the waiting list if they apply for aid. In 1989, the group with priority included about 4.5 million households. The 4 million "other" very low income households generally are next in line if they apply for aid.

The third group of households eligible for housing aid--the group with the lowest priority--is households classified as "low income." In the case of households with four people, that means incomes between 50 percent and 80 percent of the median income in the area. Under current law, only a limited proportion of available aid may go to the 6 million households in the low-income group.

Households without children constitute a majority of recipients of federal housing aid and of nonrecipients with priority. Elderly renters without children account for nearly 40 percent of all households that receive housing aid; of priority nonrecipients, however, they represent only about 20 percent. In contrast, nonelderly households without children constitute approximately 20 percent of recipients but 40 percent of nonrecipients with priority. That group is especially diverse, ranging from disabled people with low incomes to young students with temporarily low incomes.

Households with children make up the remaining 45 percent of subsidized renters and about the same share of eligible unsubsidized households, both with and without priority. Roughly two-thirds of those

Summary Table 1.

Subsidized and Unsubsidized Renters, by Demographic Group and Priority for Housing Assistance, 1989

Demographic Group ^a	Subsidized	Unsubsidized			
		Very Low Income		Low Income	Higher Income
		Priority	Other		
In Thousands					
All Households	4,070	4,570	3,972	6,023	12,994
As a Percentage of All Households					
Elderly, Without Children	37	20	22	12	7
Nonelderly, Without Children	18	39	31	46	63
One or Two Children	33	28	31	33	25
Three or More Children	<u>12</u>	<u>13</u>	<u>16</u>	<u>9</u>	<u>5</u>
Total	100	100	100	100	100

SOURCE: Congressional Budget Office tabulations based on a special version of the 1989 American Housing Survey.

NOTES: See Box 3 in Chapter 3 for definitions of household groups and their priority status.

The data exclude renters who paid no cash rent.

a. Elderly households are those headed by a person age 62 or older. Children are household members under age 18.

households with children are small families (one or two children). The remaining households have three or more children.

What Are the Incomes and Housing Costs of Subsidized and Unsubsidized Renters?

In 1989, recipients of federal housing assistance had an average income that was 22 percent higher than the average income of very low income households that did not receive aid. Such a result is not necessarily surprising. Part of the difference could have resulted from increases in the incomes of recipients

after they began receiving aid. Another cause of the difference could be that some recipients of aid entered housing programs before the current rules for assigning priority went into effect.

When the average incomes of the four demographic groups of renters discussed above (elderly and nonelderly households without children and small and large families with children) were considered separately, sizable differences between recipients and very low income nonrecipients were evident for only two groups--small families and childless households headed by nonelderly people. Some of the difference for the latter group may have been due to a relatively large share of single people among very low income nonrecipients. Single people tend

Summary Table 2.
Average Annual Income and Monthly Housing Costs of Subsidized and Unsubsidized Renters, by Demographic Group and Priority for Housing Assistance, 1989 (In dollars)

Demographic Group ^a	Subsidized	Unsubsidized				
		Very Low Income			Low Income	Higher Income
		All	Priority	Other		
Average Annual Household Income						
Elderly, Without Children	7,400	7,089	6,063	8,156	16,305	33,839
Nonelderly, Without Children	12,135	7,240	5,624	9,588	17,241	40,182
One or Two Children	11,071	8,859	6,325	11,464	20,773	42,267
Three or More Children	10,659	10,311	7,095	13,360	24,860	44,557
All Households	9,874	8,127	6,098	10,461	19,000	40,497
Average Monthly Housing Cost						
Elderly, Without Children	208	329	432	223	431	536
Nonelderly, Without Children	257	364	420	283	404	540
One or Two Children	247	381	442	318	472	580
Three or More Children	223	402	459	347	522	597
All Households	232	367	433	291	441	553

SOURCE: Congressional Budget Office based on a special version of the 1989 American Housing Survey.

NOTES: See Box 3 in Chapter 3 for definitions of household groups and their priority status.

The data exclude renters who paid no cash rent.

a. Elderly households are those headed by a person age 62 or older. Children are household members under age 18.

to have relatively low incomes but generally could not receive aid in 1989 because they were not eligible for it unless they met certain conditions, such as being disabled. (With a change in the law, they became eligible in 1990.)

Perhaps more surprising is the large difference in income between households that received subsidies and nonrecipients with priority for aid. The average income of subsidized households was about \$10,000 compared with about \$6,000 for nonrecipients with priority (see Summary Table 2). A similar pattern existed for all four demographic groups.

As expected, housing subsidies significantly reduced the cost of housing for recipients compared with the market rents that unsubsidized households paid. At about \$230 per month, the out-of-pocket housing costs of recipients of aid in 1989 were just over half those of nonrecipients with priority and 20 percent below those of other very low income nonrecipients. Among the demographic groups of renters, the differences between recipients and nonrecipients were biggest for elderly households and large families.

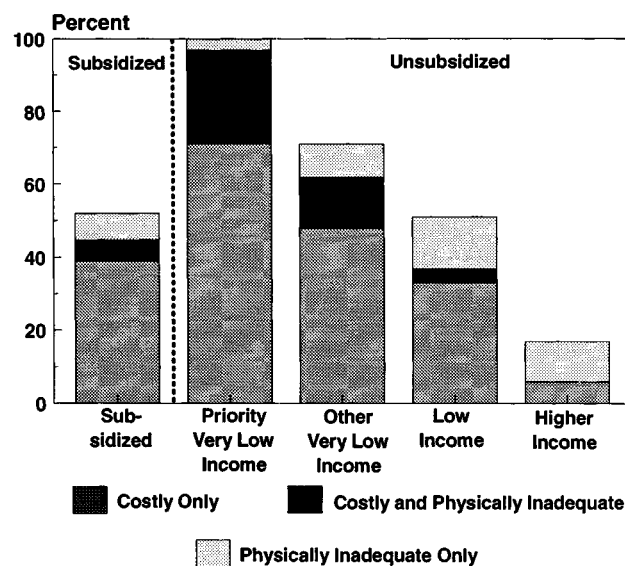
Among nonrecipients of federal housing assistance, households that qualified for priority for aid had much lower incomes than very low income households without priority. In addition, they paid much higher rents. For elderly households with priority, the large share of income spent for rent stemmed mainly from the relatively high rents they paid--perhaps because they had remained in units that they could afford more easily when their incomes were higher. But for the priority group of large families, relatively low incomes played a more significant role in explaining the large share of income they spent for rent.

What Are the Housing and Neighborhood Problems of Subsidized and Unsubsidized Renters?

Housing aid reduces the incidence and severity of housing problems for recipients, but it does not eliminate them for all such households. In 1989, roughly half of the households that received subsidies still

experienced one or more of the housing problems considered in this analysis: living in a relatively costly unit (one that costs more than 30 percent of a household's income), living in a physically substandard unit (as defined in the text of this analysis), and living in a crowded unit (one with more than two people per bedroom). In comparison, more than 80 percent of unsubsidized very low income households that did not receive subsidies experienced such problems. Because the above list includes both high costs for housing and substandard units, all renters in the priority group have housing problems by definition. In addition, their problems are more serious than the problems of unsubsidized renters in the other groups.

Summary Figure 2.
Percentage of Subsidized and Unsubsidized Renters with Housing Problems, by Priority for Housing Assistance, 1989



SOURCE: Congressional Budget Office based on data from a special version of the 1989 American Housing Survey.

NOTES: See Box 2 in Chapter 3 for definitions of housing problems and Box 3 for definitions of household groups and their priority status.

Physically inadequate units are substandard or crowded, or both.

The data exclude renters who paid no cash rent.